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20 UNITED STATES DISTRICT COURT

21 NORTHERN DISTRICT OF CALIFORNIA

22 FRANK HODGES, Individually and on Behalf)
23 of All Others Similarly Situated,)

24 Plaintiff,)

25 vs.)

26 IMMERSION CORPORATION, VICTOR A.)
27 VIEGAS, RALPH EDWARD CLENTON)
28 RICHARDSON, STEPHEN M. AMBLER and)
29 DANIEL J. CHAVEZ,)

30 Defendants.)

E-filing

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FILED
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RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT,
NORTHERN DISTRICT OF CALIFORNIA

MMC

No. CV 09
CLASS ACTION

4073

COMPLAINT FOR VIOLATION OF THE
FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise
2 acquired the publicly traded securities of Immersion Corporation (“Immersion” or the “Company”)
3 between May 3, 2007 and June 30, 2009, inclusive (the “Class Period”), against Immersion and
4 certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (the
5 “1934 Act”).

7 2. Immersion is a provider of haptic technologies, which allow people to use their sense
8 of touch while operating a variety of digital devices. The Company develops and manufactures or
9 licenses a range of hardware and software technologies and products.

10 3. During the Class Period, defendants issued materially false and misleading statements
11 regarding the Company's transactions in its Medical line of business. Specifically, defendants failed
12 to disclose that Immersion's revenue recognition practices in its Medical line of business were
13 improper. As a result of defendants' false and misleading statements, Immersion stock traded at
14 artificially inflated prices during the Class Period, reaching a high of \$20.50 per share on July 13,
15 2007. Subsequently, in February 2008, Immersion announced a correction of its income tax expense
16 for its interim 2007 results, causing the Company's stock to drop somewhat, but the stock continued
17 to trade at artificially inflated levels due to the Company's reported profitability.

18 4. On July 1, 2009, before the market opened, the Company issued a press release
19 entitled "Immersion Corporation Announces Internal Investigation." The press release stated in part:

Immersion Corporation announced that the Audit Committee of the Board of Directors of Immersion Corporation (“Immersion”) is conducting an internal investigation into certain previous revenue transactions in its Medical line of business. The investigation is being conducted with the assistance of outside counsel. The Audit Committee has not yet determined the impact, if any, to Immersion’s historical financial statements. As a result of this investigation, Immersion may discover information that could raise issues with respect to its previously-reported financial information, which could be material. Immersion will not be able to evaluate the full impact of the aforementioned matters until the Audit Committee completes its review and further analysis is completed.

26 Although Immersion currently intends to be in a position to file its quarterly
27 report on Form 10-Q for the second quarter of fiscal 2009 on time and is diligently
pursuing this investigation, it is possible that as a result of the investigation,
Immersion would be unable to file its quarterly report and announce financial results
in a timely manner.

5. On this news, Immersion's stock dropped over 23% from a close of \$4.94 per share
on June 30, 2009 to a close of \$3.80 per share on July 1, 2009, a drop of \$1.14 per share on volume
of 1.5 million shares in one day. This decrease in Immersion's stock price was a result of the
artificial inflation caused by defendants' misleading statements coming out of the stock price.

5 6. The true facts, which were known by the defendants but concealed from the investing
6 public during the Class Period, were as follows:

(a) The Company's revenue recognition practices with respect to its Medical line of business did not comply with Generally Accepted Accounting Principles ("GAAP");¹ and

(b) The Company's reported revenue and earnings were overstated due to the Company's false accounting.

11 7. As a result of defendants' false statements, Immersion's publicly traded securities
12 traded at inflated levels during the Class Period. This drop removed inflation from Immersion's
13 publicly traded securities, causing real economic loss to investors who had purchased the securities
14 during the Class Period.

JURISDICTION AND VENUE

16 8. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise
17 under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

18 9. Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false
19 and misleading statements were made in or issued from this District.

20 10. Immersion's principal executive offices are located at 801 Fox Lane, San Jose,
21 California.

¹ GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

1

PARTIES

2 11. Plaintiff Frank Hodges purchased Immersion publicly traded securities as described
3 in the attached certification and was damaged thereby.

4 12. Defendant Immersion is a provider of haptic technologies, which allow people to use
5 their sense of touch while operating a variety of digital devices. The Company develops and
6 manufactures or licenses a range of hardware and software technologies and products. It focuses on
7 marketing and business development in the target application areas, which include automotive,
8 consumer electronics, gaming, and commercial and industrial controls; medical simulation; and
9 mobile communications. The Company manages these application areas under two segments: the
10 Touch line of business and the Medical line of business. Immersion is headquartered in San Jose,
11 California.

12 13. Defendant Victor A. Viegas (“Viegas”) was President and Chief Executive Officer
13 (“CEO”) of Immersion until April 2008 and Chairman of the Board of the Company until February
14 2009.

15 14. Defendant Ralph Edward Clenton (“Clent”) Richardson (“Richardson”) is, and since
16 April 2008 has been, President and CEO of Immersion.

17 15. Defendant Stephen M. Ambler (“Ambler”) was, until July 31, 2009, Chief Financial
18 Officer (“CFO”) and Vice President, Finance of Immersion.

19 16. Defendant Daniel J. Chavez (“Chavez”) was, until August 7, 2009, Senior Vice
20 President and General Manager, Medical line of business of Immersion.

21 17. Defendants Viegas, Richardson, Ambler and Chavez (the “Individual Defendants”),
22 because of their positions with the Company, possessed the power and authority to control the
23 contents of Immersion’s quarterly reports, press releases and presentations to securities analysts,
24 money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with
25 copies of the Company’s reports and press releases alleged herein to be misleading prior to or shortly
26 after their issuance and had the ability and opportunity to prevent their issuance or cause them to be
27 corrected. Because of their positions with the Company, and their access to material non-public
28 information available to them but not to the public, the Individual Defendants knew that the adverse

1 facts specified herein had not been disclosed to and were being concealed from the public and that
 2 the positive representations being made were then materially false and misleading. The Individual
 3 Defendants are liable for the false statements pleaded herein.

4 **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

5 18. Defendants are liable for: (i) making false statements; or (ii) failing to disclose
 6 adverse facts known to them about Immersion. Defendants' fraudulent scheme and course of
 7 business that operated as a fraud or deceit on purchasers of Immersion publicly traded securities was
 8 a success, as it: (i) deceived the investing public regarding Immersion's prospects and business; (ii)
 9 artificially inflated the price of Immersion's securities; and (iii) caused plaintiff and other members
 10 of the Class to purchase Immersion publicly traded securities at inflated prices.

11 **BACKGROUND**

12 19. Immersion, incorporated in 1993, is a provider of haptic technologies, which allow
 13 people to use their sense of touch while operating a variety of digital devices. The Company
 14 develops and manufactures or licenses a range of hardware and software technologies and products.
 15 It focuses on marketing and business development in the target application areas, which include
 16 automotive, consumer electronics, gaming, and commercial and industrial controls; medical
 17 simulation; and mobile communications. The Company manages these application areas under two
 18 segments: the Touch line of business and the Medical line of business. In the Medical line of
 19 business segment of Immersion, the Company has developed simulation technologies that can be
 20 used for medical training and testing. The Company has four medical simulation product lines: the
 21 Virtual IV system, which simulates needle-based procedures, such as intravenous catheterization and
 22 phlebotomy; the Endoscopy AccuTouch System, which simulates endoscopic procedures, including
 23 bronchoscopy and lower and upper gastrointestinal procedures; the CathLabVR System, which
 24 simulates endovascular interventions, including cardiac pacing, angiography, angioplasty, and
 25 carotid and coronary stent placement; and the LapVR System, which simulates minimally invasive
 26 procedures involving abdominal and pelvic organs. In addition, Immersion sells an arthroscopy
 27 surgical simulator for certain arthroscopic surgical procedures on knees and shoulders.

28

CLASS ACTION ALLEGATIONS

2 20. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules
3 of Civil Procedure on behalf of all persons who purchased or otherwise acquired Immersion publicly
4 traded securities during the Class Period (the "Class"). Excluded from the Class are defendants.

5 21. The members of the Class are so numerous that joinder of all members is
6 impracticable. The disposition of their claims in a class action will provide substantial benefits to
7 the parties and the Court. Immersion has over 27 million shares of stock outstanding, owned by
8 hundreds if not thousands of persons.

9 22. There is a well-defined community of interest in the questions of law and fact
10 involved in this case. Questions of law and fact common to the members of the Class which
11 predominate over questions which may affect individual Class members include:

22 23. Plaintiff's claims are typical of those of the Class because plaintiff and the Class
23 sustained damages from defendants' wrongful conduct.

24 24. Plaintiff will adequately protect the interests of the Class and has retained counsel
25 who are experienced in class action securities litigation. Plaintiff has no interests which conflict
26 with those of the Class.

27 25. A class action is superior to other available methods for the fair and efficient
28 adjudication of this controversy.

1 **DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED
2 DURING THE CLASS PERIOD**

3 26. On May 3, 2007, Immersion reported its first quarter 2007 financial results, in a
4 release which stated in part:

5 Immersion Corporation, a leading developer and licensor of touch feedback
6 technology, today announced its first quarter 2007 financial results. Revenues were
7 \$6.4 million for the quarter ended March 31, 2007 compared to revenues of \$6.0
8 million for the first quarter of 2006.

9 Operating income for the first quarter of 2007 was \$131.0 million, which
10 included \$134.9 million of income arising from Litigation conclusions and patent
11 license income as well as stock-based compensation expense of \$634,000. In the first
12 quarter of 2006, the operating loss was \$2.5 million, which included \$650,000 of
13 income arising from a litigation settlement and stock-based compensation expense of
14 \$723,000.

15 Net income for the first quarter was \$122.4 million compared to a net loss of
16 \$2.9 million for the first quarter of 2006. Diluted earnings per share were \$4.13 for
17 the quarter compared to \$0.12 loss per share for the first quarter of 2006.

18 As of March 31, 2007, Immersion had cash and cash equivalents totaling
19 \$137.6 million compared to \$32.0 million as of December 31, 2006.

20 During the quarter, Immersion and Sony Computer Entertainment concluded
21 their patent litigation at the U.S. Court of Appeals for the Federal Circuit and entered
22 into a new business agreement. In total, Immersion will receive a minimum of \$152.2
23 million through the conclusion of the litigation and the new business agreement.
24 Immersion has recorded \$119.9 million of this sum as Litigation conclusions and
25 patent license income, and \$107,000 of this sum as revenue during the quarter, and
26 will record \$29.9 million as revenue and \$2.3 million as interest income in future
27 periods. In addition, Immersion recorded \$15.0 million as Litigation conclusions and
28 patent license income upon release of its long-term customer advance from
Microsoft, which occurs as a result of Immersion's determination that the conclusion
of its litigation with Sony does not trigger any payment obligation to Microsoft under
its agreements.

Immersion will be able to utilize the majority of its tax net operating loss
carryforwards against the income recorded in the quarter. Provision for income tax
expense for the quarter was \$8.5 million, an effective tax rate of 6.5%

27 27. On August 2, 2007, Immersion reported is second quarter 2007 financial results, in a
28 release which stated in part:

Immersion Corporation, a leading developer and licensor of touch feedback
technology, today announced its second quarter 2007 financial results. Revenues
were \$8.6 million for the quarter ended June 30, 2007 or 29% higher when compared
to revenues of \$6.7 million for the second quarter of 2006.

Net income for the second quarter was \$176,000 compared to a net loss of
\$2.4 million for the second quarter of 2006. Diluted earnings per share were \$0.01
for the quarter compared to \$(0.10) loss per share for the second quarter of 2006.

1 Revenues were \$15.0 million for the six months ended June 30, 2007
 2 compared to revenues of \$12.7 million for the first six months of 2006. Net income
 3 for the first six months of 2007 was \$122.6 million, or \$4.03 diluted earnings per
 share, compared to a net loss of \$(5.3) million, or \$(0.22) loss per share, for the first
 six months of 2006.

4 “Second quarter revenue from our Medical, Gaming, and Touch Interface
 5 Products groups led our 29% revenue growth over the second quarter of last year,”
 6 said Victor Viegas, Immersion CEO and president. “Our back-to-back profitable
 quarters this year reflect our continued efforts to achieve sustained profitability.”

7 As of June 30, 2007, Immersion had cash, cash equivalents, and short-term
 8 investments totaling \$135.5 million compared to \$137.6 million as of March 31,
 9 2007. In a press release on July 27, 2007, Immersion announced it notified the
 holders of its convertible Debentures that it will redeem the Debentures at the end of
 a thirty day notice period unless they elect to convert the outstanding principal and
 accrued interest into shares of Immersion’s common stock within that period.

10 “We now have the financial base to pursue significant revenue growth from
 11 our many opportunities in existing and new markets,” continued Viegas. “As a result
 12 of our June agreement with Nokia, the number one maker of mobile devices, we now
 13 have licensed our VibeTonz® technology to three of the top five handset makers,
 thereby creating the potential for a significant increase in the number of VibeTonz-
 14 enabled mobile devices and the type and amount of content available for them. In
 addition, during the quarter we launched an exciting new medical simulation
 platform, the LaparoscopyVR™ system, that can address training needs across
 multiple disciplines including general surgery, gynecology, pediatrics, and urology.”

15 28. On November 1, 2007, Immersion reported its third quarter 2007 financial results, in
 16 a release which stated in part:

17 Immersion Corporation, a leading developer and licensor of touch feedback
 18 technology, today announced its third quarter 2007 financial results. Revenues were
 19 \$9.8 million for the quarter ended September 30, 2007 or 49% higher when
 compared to revenues of \$6.6 million for the third quarter of 2006.

20 Net income for the third quarter was \$493,000 compared to a net loss of
 21 \$(3.2) million for the third quarter of 2006. Diluted earnings per share were \$0.02 for
 the quarter compared to \$(0.13) loss per share for the third quarter of 2006.

22 Revenues were \$24.8 million for the nine months ended September 30, 2007
 23 compared to revenues of \$19.2 million for the first nine months of 2006. Net income
 24 for the first nine months of 2007 was \$123.1 million, or \$3.93 diluted earnings per
 share, compared to a net loss of \$(8.4) million, or \$(0.34) loss per share, for the first
 nine months of 2006.

25 As of September 30, 2007, Immersion had cash, cash equivalents, and short-
 26 term investments totaling \$137.2 million compared to \$135.5 million as of June 30,
 27 2007.

28 “Immersion has now completed three consecutive profitable quarters with
 very strong year-to-date revenue growth compared to the first nine months of 2006.
 Revenue from our Medical business grew 22%, Touch Interface Products 32%, and
 Gaming 47%. We also reached a significant level of third-quarter revenue of

1 \$930,000 in our Mobility business," said Victor Viegas, Immersion CEO, president,
 2 and chairman of the board.

3 "We recently completed a strategic plan for significantly growing revenue
 4 and shareholder value, targeting growth opportunities in three areas: medical
 5 simulators, mobile devices, and tactile feedback for touchscreens," continued Viegas.
 6 "The plan involves product and technology development, sales and marketing
 7 initiatives, financial plans, and organizational changes.

8 "Over the past five years, the Immersion team and I have built and defended a
 9 strong intellectual property portfolio, invested in markets and technologies that have
 10 become long-term growth opportunities, and steered the company to profitability. As
 11 the leading company in haptics technology, Immersion is positioned for substantial
 12 growth as markets increasingly recognize the value of haptics. Now is the right time
 13 to bring in additional management strength in sales and marketing to drive our
 14 growth initiatives while I continue to provide my expertise in licensing, intellectual
 15 property, and business negotiations. Therefore, the Immersion Board of Directors
 16 and I are announcing several organizational changes," concluded Viegas.

17 Effective October 31, 2007, Victor Viegas, currently CEO, president, and
 18 director of Immersion was elected chairman of the board, and Jack Saltich, who has
 19 served on the board since January 2002, was elected lead independent director in
 20 accordance with corporate governance best practices. Mr. Viegas continues as CEO
 21 and president while the Immersion Board of Directors conducts an open search for a
 22 new CEO.

23 In addition, the company will add a new board member to strengthen
 24 experience in the mobile communications industry. A search has begun for
 25 candidates with sales and marketing experience in the wireless operator and mobile
 26 phone market.

27 "These changes help position Immersion for its next stage of growth, one
 28 based on building strong businesses from its solid foundation of intellectual property,
 29 technology, and product solutions," said Jack Saltich, lead director. "As the company
 30 continues to benefit from Vic's leadership and financial background as chairman of
 31 the board, it will also benefit from a new CEO and a new board member who will
 32 each bring additional skills, strong sales and marketing background, and experience
 33 in one or more of our target markets."

34 In a separate press release today, Immersion announced that its board of
 35 directors authorized the repurchase of up to \$50 million of the company's common
 36 stock as part of its strategic financial plan

37 29. On February 28, 2008, Immersion issued its fourth quarter and year end 2007
 38 financial results, in a release which stated in part:

39 Immersion Corporation, a leading developer and licensor of touch feedback
 40 technology, today announced its fourth quarter 2007 financial results. Revenues were
 41 \$9.9 million for the quarter ended December 31, 2007 or 15 percent higher when
 42 compared to revenues of \$8.6 million for the fourth quarter of 2006.

43 Net income for the fourth quarter was \$0.5 million compared to a net loss of
 44 \$(2.0) million for the fourth quarter of 2006. Diluted earnings per share were \$0.02
 45 for the quarter compared to \$(0.08) loss per share for the fourth quarter of 2006.

Revenues were \$34.7 million for the year ended December 31, 2007 compared to revenues of \$27.9 million for the year ended December 31, 2006, an increase of 25 percent. Net income for the year ended December 31, 2007 was \$117.0 million, or \$3.71 diluted earnings per share, compared to a net loss of \$(10.4) million, or \$(0.42) loss per share, for the year ended December 31, 2006.

As of December 31, 2007, Immersion had cash, cash equivalents, and short-term investments totaling \$138.1 million compared to \$137.2 million as of September 30, 2007.

"In 2007, Immersion achieved revenue growth of 25 percent and profitability in each of the four quarters," said Victor Viegas, Immersion CEO, president, and chairman of the board. "We have substantial organic growth opportunities in our medical, mobility, and touch interface products businesses. We have a strong balance sheet that allows us to increase investment in new product development and in sales and marketing to drive a faster pace of customer adoption of our products and technologies worldwide."

The Company has determined that a correction is needed to the previously issued financial reports for the three months ended March 31, 2007 and for the six and nine months ended June 30, 2007 and September 30, 2007, respectively. The Company has determined that in the March 31, 2007 quarter, it understated income tax expense by \$6.6 million. The net correction was the result of overestimating state income tax expense, offset by an error in releasing valuation allowance to income tax expense related to stock option deductions for prior years. This correction has no effect on revenue, operating income, or cash balances. The impact of these corrections is to increase previously reported income tax expense by \$6.6 million, reduce income tax liability by \$0.7 million, increase deferred tax assets by \$0.3 million, and increase stockholders' equity by a net \$1.0 million.

30. On this disclosure of an accounting misstatement, Immersion's shares dropped from over \$10 per share to \$8.43 per share. However, because the accounting problem was related to income tax expense rather than core operations, the stock soon recovered.

31. On April 24, 2008, Immersion announced that defendant Richardson had been appointed President and CEO. The release stated in part:

"Clent brings strong industry knowledge, proven global business development, sales, and marketing accomplishments, as well as team-building and executive management skills," said Victor Viegas, Immersion chairman of the board and current president and CEO. "He also brings proven experience in establishing business relationships with leading OEMs, developers, and service providers to create industry-wide support for products and technologies that *will help Immersion accelerate the capture of its significant upside potential*. I look forward to working with Clent in the transition to his new leadership role and to supporting Immersion's growth as chairman of the board."

"Immersion's global leadership in innovation, development, and deployment of haptics technology is nearing a tipping point," said Immersion president and CEO elect Clent Richardson. "*Now is the time to build upon and take advantage of the*

1 *company's strong financial footing, growing intellectual property portfolio, and*
 2 *global opportunities in the medical, mobility, touch-interface, and gaming markets.*
 3 With the successful adoption of Immersion's technology by leading brands in
 4 markets around the world, our focus will be to execute growth plans and accelerate
 5 customer adoption of our haptics technology worldwide. I look forward to leading
 6 Immersion to the next level and beyond and to working with Vic and the board of
 7 directors to grow value for our shareholders, customers, and employees."

8 32. On May 1, 2008, Immersion issued its first quarter 2008 financial results, in a release
 9 which stated in part:

10 Immersion Corporation, a leading developer and licensor of touch feedback
 11 technology, today announced its first quarter 2008 financial results. Revenues were
 12 \$8.2 million for the quarter ended March 31, 2008 or 27 percent higher when
 13 compared to revenues of \$6.4 million for the first quarter of 2007.

14 Net loss for the first quarter was \$(2.6) million compared to a net income of
 15 \$115.8 million for the first quarter of 2007. Net income for the first quarter of 2007
 16 included \$134.9 million of litigation conclusions and patent license. Loss per share
 17 was \$(0.08) for the quarter compared to \$3.91 diluted earnings per share for the first
 18 quarter of 2007.

19 * * *

20 “I believe haptics is at a tipping point, fast becoming an imperative for the
 21 ideal intuitive user interface,” said Immersion president and CEO Clint Richardson.
 22 “I’m pleased and excited to be joining Immersion to take our products and
 23 technology to the next level of adoption and proliferation and, in so doing, deliver
 24 more value to our shareholders, customers, and end users. We are adding high
 25 quality, experienced sales, marketing, and support people to further our plans for
 26 international growth and to help our customers around the world take advantage of
 27 and quickly implement haptics in their new products.”

28 33. On July 31, 2008, Immersion issued its second quarter 2008 financial results, in a
 29 release which stated in part:

30 Immersion Corporation, the leader in developing and licensing touch feedback
 31 technology, today announced its second quarter 2008 financial results. Revenues
 32 were \$9.3 million for the quarter ended June 30, 2008, compared to revenues of \$8.6
 33 million for the second quarter of 2007, an increase of 8%.

34 Net loss for the second quarter was \$(3.1) million, compared to net income of
 35 \$176,000 for the second quarter of 2007. Loss per share was \$(0.10) for the quarter,
 36 compared to \$0.01 diluted earnings per share for the second quarter of 2007.

37 Revenues were \$17.5 million for the six months ended June 30, 2008,
 38 compared to revenues of \$15.0 million for the first six months of 2007, an increase of
 39 16%. Net loss for the first six months of 2008 was \$(5.7) million, or \$(0.19) loss per
 40 share, compared to net income of \$116.0 million, or \$3.81 diluted earnings per share,
 41 for the first six months of 2007. Net income for the first six months of 2007 included
 42 \$134.9 million of litigation conclusions and patent license.

1 As of June 30, 2008, Immersion had cash, cash equivalents, and short-term
 2 investments totaling \$129.4 million, compared to \$140.0 million as of March 31,
 3 2008. During the quarter, the Company bought back some of its own shares under the
 4 previously approved share repurchase program at a cost of \$6.1 million.

5 In July, Immersion granted a worldwide license agreement for VibeTonz®
 6 technology to KTF Technologies Inc., a handset manufacturer in Korea.

7 “An important goal of ours for long term growth is increasing international
 8 sales and balancing the mix of domestic and international revenue,” said Immersion
 9 president and CEO Clent Richardson. “We are aggressively expanding our global
 10 reach to support our focused growth opportunities in medical, mobility, and
 11 touchscreen tactile feedback. Our efforts include staffing with the very best people
 12 and locating them where the opportunities exist around the world. We are already
 13 seeing positive and measurable results from our investments. Second quarter
 14 international revenues reached \$4.5 million, almost 50% of total revenue and an
 15 increase of 25% compared to the year ago quarter.”

16 34. On October 30, 2008, Immersion issued its third quarter 2008 financial results, in a
 17 release which stated in part:

18 Revenues for the third quarter of fiscal 2008 were \$10.1 million, an increase
 19 of approximately 3% over revenues of \$9.8 million for the third quarter of 2007. Net
 20 loss for the third quarter, which included a one-time charge of \$20.75 million related
 21 to the settlement of Immersion’s litigation with Microsoft, was \$(32.3) million, or
 22 \$(1.10) per share. Excluding the one-time charge, and tax effects of \$7.3 million, net
 23 loss for the third quarter was \$(4.3) million, or \$(0.15) per share. This compares to
 24 net income of \$493,000, or \$0.02 per diluted share, for the third quarter of 2007.

25 “Immersion’s revenue of \$10.1 million was not only the highest revenue total
 26 in our history, but also the first time that quarterly revenue has exceeded the \$10
 27 million mark,” said Immersion president and CEO Clent Richardson. “Results for the
 28 touch side of our business were highlighted by strong adoption of our solutions in
 29 high-volume mobile phones, while international sales for our medical line of
 30 business were robust. We settled two important legal disputes during the quarter,
 31 allowing management to focus its time and energy on execution. In short, while we
 32 are not satisfied with our growth rate or bottom-line results, Immersion demonstrated
 33 solid execution and performance amidst the turbulent macroeconomic environment.”

34 * * *

35 “While we are mindful of the current economic climate, Immersion’s
 36 extremely strong balance sheet and the magnitude of the global opportunities to
 37 leverage the world’s best IP portfolio of haptics technology provides us with
 38 confidence in our growth initiatives,” concluded Richardson.

39 35. On March 2, 2009, Immersion issued its fourth quarter and year end 2008 financial
 40 results, in a release which stated in part:

41 Revenues for the fourth quarter of fiscal 2008 were \$9.0 million, a decrease
 42 of 9% compared to revenues of \$9.9 million for the fourth quarter of 2007 and a
 43 decrease of 11% compared to \$10.1 million in the third quarter of 2008. Excluding
 44 \$1.1 million in one-time deferred revenues for the third quarter of 2008, revenues for

1 the fourth quarter were flat sequentially. Net loss for the fourth quarter, which
 2 included one-time charges of \$2.6 million related to the divestiture of the 3D line of
 3 business, was \$(9.7) million, or \$(0.35) per share. Excluding the one-time charges,
 4 net loss for the fourth quarter was \$(7.1) million, or \$(0.26) per share. This compares
 5 to net income of \$511,000, or \$0.02 per diluted share, for the fourth quarter of 2007
 6 and to a net loss in the third quarter of 2008 of \$(32.3) million, or \$(1.10) per share,
 7 which included a one-time charge of \$20.75 million related to the settlement of
 8 Immersion's litigation with Microsoft. Of the \$2.6 million in costs related to the
 9 divestiture of the 3D line of business, \$2.1 million was included within Cost of
 10 Products Sales, with the remainder included within Restructuring Costs.

11 Revenues for fiscal 2008 were \$36.5 million, an increase of 5% over revenues
 12 of \$34.7 million for fiscal 2007. Net loss for fiscal 2008, which included one-time
 13 charges of \$2.6 million related to the divestiture of the 3D line of business, and a
 14 \$20.75 million settlement of Immersion's lawsuit with Microsoft, was \$(47.7)
 15 million, or \$(1.61) per share. Excluding the one-time charges and settlement, net loss
 16 for fiscal 2008 was \$(24.4) million, or \$(0.82) per share. This compares with net
 17 income of \$117 million, or \$3.71 per diluted share, in fiscal 2007, which included
 18 \$134.9 million related to Litigation Settlements, Conclusions and Patent License
 19 Income.

20 "Despite a backdrop of severe economic turmoil, Immersion posted growth in
 21 2008," said Immersion president and CEO Clent Richardson. "We delivered this
 22 growth while undertaking decisive and transformative actions across our business as
 23 we have rebuilt our leadership team, simplified and streamlined our lines of business,
 24 forged important new customer relationships and recently re-launched our brand. The
 25 interest around products leveraging touch continues to gain momentum, creating a
 26 growing appreciation for Immersion's technology. We are now focused on execution
 27 and capitalizing on opportunities created by this trend in 2009, backed by a balanced
 28 and diversified business model, with a strong balance sheet from which to fund our
 29 growth objectives."

30 Immersion recently announced that it has restructured its operations into two
 31 primary lines of business – Medical and Touch – in an effort to improve focus, drive
 32 future growth and leverage synergies inherent to its business model. As part of this
 33 process, the company today announced that it is relocating its Medical line of
 34 business from Gaithersburg, Maryland to its corporate headquarters in San Jose,
 35 California. This move is designed to measurably improve the Medical line of
 36 business from an execution, operations and management perspective and is expected
 37 to result in meaningful cost savings beginning in mid-2009.

38 36. These results were disappointing (\$0.12 below estimates) and caused Immersion's
 39 stock to drop to \$2.78 per share on March 3, 2009, down from \$3.69 per share prior to the
 40 announcement.

41 37. The stock recovered when Immersion announced and "exclusive new distribution
 42 agreement" with a prominent Japanese medical devices distributor.

43 38. On May 4, 2009, Immersion issued its first quarter 2009 financial results, in a release
 44 which stated in part:

1 Revenues from Continuing Operations for the first quarter of 2009 were \$7.0
 2 million, an increase of 1% compared to revenues from Continuing Operations of \$6.9
 3 million for the first quarter of 2008 and a decrease of 8% compared to revenues from
 4 Continuing Operations of \$7.6 million for the fourth quarter of 2008. Total revenue
 5 generated during the first quarter of 2009 by the Company was \$7.5 million,
 6 \$531,000 of which was included within Gain from Discontinued Operations.

7 Immersion commenced the divestiture of its 3D line of business during the
 8 first quarter of 2009. Income and expenses directly attributable to the 3D business are
 9 presented as "Discontinued Operations" in the Company's statement of operations.

10 Net loss for the first quarter of 2009 was \$(7.5) million, or \$(0.27) per share,
 11 compared to net loss for the first quarter of 2008 of \$(2.6) million, or \$(0.08) per
 12 share and net loss of \$(9.7) million, or \$(0.35) per share, for the fourth quarter of
 13 2008, which included one-time charges of \$2.6 million related to the divesture of the
 14 3D line of business.

15 "Demand for Immersion's proprietary TouchSense solutions was strong as
 16 we posted sequential and annual growth for this line of business during the first
 17 quarter. Touch screens in mobile phones is fueling demand for haptics in that market
 18 segment. We estimate that in 2008 our TouchSense technology shipped in 15% of
 19 touch screen phones worldwide. Based on our current design wins with the top three
 20 handset manufacturers globally, we expect that number to grow to approximately
 21 25% of 2009 touch screen phone shipments. Separately, we have begun to generate
 22 royalty license revenue from agreements with semiconductor companies and believe
 23 that this is the beginning of an important new revenue stream for Immersion," said
 24 Immersion president and CEO Clint Richardson.

25 "Domestic Medical sales were lower than expected primarily due to
 26 sluggishness in the rate of capital purchases from hospitals and other facilities caused
 27 by the overall economy, as well as seasonal fluctuations. The relocation of our
 28 Medical line of business to our headquarters, combined with cost-cutting initiatives,
 29 are expected to improve the operational and financial performance of that business.
 30 Given the reduced trajectory of our revenue growth rate, we have taken aggressive
 31 and prudent actions to decrease expenses across the company to achieve cash-flow
 32 breakeven and turn the corner on sustained profitability as quickly as possible. We
 33 will begin to experience the benefits of these actions in the second quarter, though
 34 the major payoff will be realized starting in the second half of 2009 and into next
 35 year. We are sizing the company appropriately to align with current revenue
 36 forecasts, while improving operational efficiency to capitalize on an unmistakable
 37 opportunity to shape the future of the user experience in digital devices," concluded
 38 Richardson.

39 As of March 31, 2009, Immersion had cash, cash equivalents, and short-term
 40 investments totaling \$80.9 million, compared to \$85.7 million as of December 31,
 41 2008.

42 39. Then, on July 1, 2009, before the market opened, the Company issued a press release
 43 entitled "Immersion Corporation Announces Internal Investigation." The press release stated in part:

44 Immersion Corporation announced that the Audit Committee of the Board of
 45 Directors of Immersion Corporation ("Immersion") is conducting an internal
 46 investigation into certain previous revenue transactions in its Medical line of
 47 business. The investigation is being conducted with the assistance of outside counsel.

The Audit Committee has not yet determined the impact, if any, to Immersion's historical financial statements. As a result of this investigation, Immersion may discover information that could raise issues with respect to its previously-reported financial information, which could be material. Immersion will not be able to evaluate the full impact of the aforementioned matters until the Audit Committee completes its review and further analysis is completed.

Although Immersion currently intends to be in a position to file its quarterly report on Form 10-Q for the second quarter of fiscal 2009 on time and is diligently pursuing this investigation, it is possible that as a result of the investigation, Immersion would be unable to file its quarterly report and announce financial results in a timely manner.

40. On this news, Immersion's stock dropped over 23% from a close of \$4.94 per share on June 30, 2009 to a close of \$3.80 per share on July 1, 2009, a drop of \$1.14 per share on volume of 1.5 million shares in one day.

41. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) The Company's revenue recognition practices with respect to its Medical line of business did not comply with GAAP; and

(b) The Company's reported revenue and earnings were overstated due to the Company's false accounting.

42. As a result of defendants' false statements, Immersion's publicly traded securities traded at inflated levels during the Class Period. This drop removed inflation from Immersion's securities, causing real economic loss to investors who had purchased the securities during the Class Period.

LOSS CAUSATION/ECONOMIC LOSS

43. By misrepresenting its financial results, the defendants presented a misleading picture of Immersion's business and prospects. Thus, instead of truthfully disclosing during the Class Period that Immersion's revenues from its Medical line of business had been inflated, Immersion falsely reported its financial results.

44. These false financial results caused and maintained the artificial inflation in Immersion's stock price throughout the Class Period and until the truth began to be revealed to the market.

1 45. In February 2008, the Company admitted that its 2007 interim financial results had
2 understated income tax expense, causing the stock to drop below \$9 per share.

3 46. On July 1, 2009, before the market opened, defendants were forced to publicly
4 disclose that Immersion had launched an investigation into the Company's previous revenue
5 transactions in its Medical business, which could impact Immersion's historical financial statements.

6 47. As a direct result of defendants' admissions and the public revelations regarding this
7 investigation and Immersion's actual business prospects going forward, Immersion's stock closed at
8 \$3.80 per share on July 1, 2009, down from \$4.94 per share just one day earlier, a decline of \$1.14
9 per share, or 23%. This drop removed the inflation from Immersion's publicly traded securities,
10 causing real economic loss to investors who had purchased the securities during the Class Period.

COUNT L

**For Violation of §10(b) of the 1934 Act and Rule 10b-5
Against All Defendants**

48. Plaintiff incorporates ¶¶1-47 by reference.

14 49. During the Class Period, defendants disseminated or approved the false statements
15 specified above, which they knew or deliberately disregarded were misleading in that they contained
16 misrepresentations and failed to disclose material facts necessary in order to make the statements
17 made, in light of the circumstances under which they were made, not misleading.

50. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- (a) employed devices, schemes and artifices to defraud;
- (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- (c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Immersion publicly traded securities during the Class Period.

51. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of
the market, they paid artificially inflated prices for Immersion publicly traded securities. Plaintiff

1 and the Class would not have purchased Immersion publicly traded securities at the prices they paid,
2 or at all, if they had been aware that the market prices had been artificially and falsely inflated by
3 defendants' misleading statements.

4 **COUNT II**

5 **For Violation of §20(a) of the 1934 Act
Against All Defendants**

6 52. Plaintiff incorporates ¶¶1-51 by reference.

7 53. The Individual Defendants acted as controlling persons of Immersion within the
8 meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their
9 ownership of Immersion stock, the Individual Defendants had the power and authority to cause
10 Immersion to engage in the wrongful conduct complained of herein. Immersion controlled the
11 Individual Defendants and all of its employees. By reason of such conduct, defendants are liable
12 pursuant to §20(a) of the 1934 Act.

13 **PRAYER FOR RELIEF**

14 WHEREFORE, plaintiff prays for judgment as follows:

15 A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
16 B. Awarding plaintiff and the members of the Class damages, including interest;
17 C. Awarding plaintiff reasonable costs and attorneys' fees; and
18 D. Awarding such equitable/injunctive or other relief as the Court may deem just and
proper.

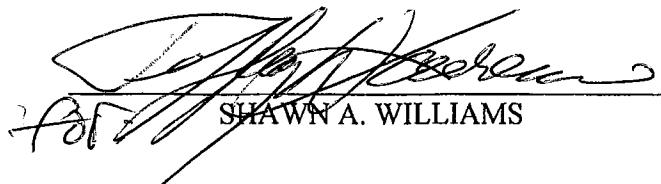
20 **JURY DEMAND**

21 Plaintiff demands a trial by jury.

22 DATED: September 2, 2009

COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP
SHAWN A. WILLIAMS

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26 Attorneys for Plaintiff

1 **CERTIFICATION OF INTERESTED ENTITIES OR PERSONS**

2 Pursuant to Civil L.R. 3-16, the undersigned certifies that as of this date, other than the
3 named parties, there is no such interest to report.

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5 ATTORNEY OF RECORD FOR PLAINTIFF
6 FRANK HODGES

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